

## 1999 Country Reports on Economic Policy and Trade Practices

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### TAIWAN

#### Key Economic Indicators

(Billions of U.S. Dollars unless otherwise noted)

	1997	1998	1999	1/
<i>Income, Production and Employment:</i>				
GDP (at current prices)	283.3	260.6	282.9	
Real GDP Growth (percent)	6.8	4.7	5.3	
GDP by Sector:				
Agriculture	7.7	7.1	7.6	
Manufacturing	78.4	70.6	74.9	
Services	155.8	146.0	166.0	
Government	29.5	26.8	29.8	
Per Capita GDP (US\$)	13,130	11,967	12,866	
Labor Force (000s)	9,432	9,546	9,690	
Unemployment Rate (percent)	2.7	2.7	2.9	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M2)	8.0	8.6	9.5	
Consumer Price Inflation	0.9	1.7	0.9	
Exchange Rate (NT\$/US\$) 2/				
Official	28.95	33.44	32.24	
<i>Balance of Payments and Trade: 3/</i>				
Total Exports FOB 4/	122.1	110.6	119.5	
Exports to U.S. CV 5/	32.6	33.1	34.9	
Total Imports CIF 4/	114.4	104.7	112.1	
Imports from U.S. FAS 5/	20.4	18.2	18.8	
Trade Balance 4/	7.7	5.9	7.4	
Trade Balance with U.S. 5/	12.2	14.9	16.1	
External Public Debt	0.1	.05	0.02	
Fiscal Deficit/GDP (pct)	3.9	3.3	5.3	
Current Account Surplus/GDP (pct)	2.5	1.3	2.1	
Debt Service Payments/GDP (pct)	0.8	1.1	0.7	
Gold and Foreign Exchange Reserves	88.2	95.1	110.0	

Aid from U.S. 6/	0	0	0
Aid from Other Countries	0	0	0

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1/ 1999 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1999.

2/ Average of figures at the end of each month.

3/ Merchandise trade.

4/ Taiwan Ministry of Finance (MOF) figures for merchandise trade.

5/ Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through August. Taiwan MOF figures for merchandise exports (FOB) to and imports (CIF) from the U.S. were (US\$ billions): (1996) 26.9/20.0, (1997) 29.5/23.2, (1998) 30.0/19.3.

6/ Aid disbursements stopped in 1965.

## *1. General Policy Framework*

Taiwan's economy is bouncing back after being hit last year with an earthquake, a cross strait scare, and a near financial crisis. Despite these setbacks, the island's growth in 1999 ended up a strong 5.4 percent, well ahead of 1998's 4.8 percent. Taiwan's industrial growth is now concentrated in capital and technology intensive industries such as petrochemicals, computers, semiconductors, and electronic components, as well as consumer goods industries. Services account for 56 percent of GDP in 1998. Merchandise exports accounted for 42 percent of GDP in 1998.

Taiwan's resilience stems from the strength of its external finances, the nimbleness of its many small-scale entrepreneurs, and the dynamism of its information technology industry. Taiwan is poised to expand its role as catalyst for cross-strait economic integration and as a global supplier of hardware for the information age.

The Asian financial crisis did lead to falling official savings and growing public expenditure have caused domestic public debt to increase steadily. The Taiwan authorities now rely largely on domestic bonds and bank loans to finance major expenditures. Taiwan has adopted austerity measures to control the government budget deficit in recent years. As a result, outstanding public debt declined from 21 percent of GNP in 1997 to 17 percent in 1999. However, debt is on the rise again as the government spends heavily on earthquake reconstruction efforts. The central level fiscal deficit through the fiscal year ending in June had fallen to 1.4 percent of GDP. However, the deficit is expected to be sharply higher by year-end 1999 and into 2000, again due to earthquake-related emergency spending. Defense spending still accounts for the largest share of public expenditures (about one quarter), but is falling in relative terms. The greatest pressure on the budget now comes from growing demands for improved infrastructure and social welfare spending, including a national health insurance plan initiated in early 1995.

Taiwan wishes to accede to the World Trade Organization (WTO) in the near future. As part of the accession process, Taiwan and the United States signed a landmark bilateral WTO agreement in February 1998. The agreement includes both immediate market access and phased-in commitments, and will provide substantially increased access for U.S. goods, services, and agricultural exports to Taiwan. Taiwan is also an active member of the Asia Pacific Economic Cooperation (APEC) forum.

## *2. Exchange Rate Policies*

Taiwan has a floating exchange rate system in which banks set rates independently. The Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. The Central Bank of China (CBC) intervenes in the foreign exchange market when it feels that speculation or "drastic fluctuations" in the exchange rate may impair normal market adjustments.

The CBC uses direct foreign exchange trading by its surrogate banks and public policy statements as its main tools to influence exchange rates. The CBC still limits the use of derivative products denominated in New Taiwan Dollars (NTD).

Trade-related funds flow freely into and out of Taiwan. Most restrictions on capital account flows have been removed since late 1995. Laws restricting repatriation of principal and earnings from direct investment have been lifted. Despite significant easing of previous restrictions on foreign portfolio investment, some limits remain in place.

### *3. Structural Policies*

Fifteen state-owned enterprises have been either totally or partially privatized in the past three years, including nine in 1999. State-owned enterprises account for 9.5 percent of GDP, a proportion that shrinks annually. Taiwan's Fair Trade Commission (FTC) acts to thwart noncompetitive pricing by state-run monopolies. FTC exemptions granted five years ago to several state-run monopolies were not renewed in 1997, making such firms subject to anti-monopoly laws.

Taiwan has been lowering tariffs significantly in recent years as part of its effort to accede to the WTO. In 1998, Taiwan began implementing tariff cuts on 1,130 items, many of specific interest to U.S. industry. Also in 1998, authorities enacted tariff cuts on 245 high-tech products under the Information Technology Agreement. Tariff reductions on 15 agricultural products, negotiated during the U.S.-Taiwan bilateral WTO accession negotiations, took effect temporarily in July 1998, and were extended in July, 1999. In February 1999, Taiwan waived tariffs on 15 aircraft components as part of plans to accede to the WTO Agreement on Trade in Civil Aircraft. An additional 777 items are slated for tariff cuts pending legislative approval. Taiwan's current average nominal tariff rate is 8.2 percent; the trade-weighted rate is 3.1 percent, both down slightly from 1998.

High tariffs and pricing structures on some goods -- in particular on some agricultural products -- nevertheless hamper U.S. exports. However, under the bilateral WTO agreement reached in February 1998, Taiwan began to provide quotas for the importation of previously banned pork, poultry, and variety meat products, and agreed to phase in tariff cuts on numerous food products upon accession. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) has a monopoly on domestic production of cigarettes and alcoholic beverages. As part of its bilateral WTO commitments to the United States, however, Taiwan has pledged to convert an existing monopoly tax on these products to a simpler tax and tariff-based system, and also to open these markets following the passage and implementation of new legislation now pending in the Legislative Yuan.

### *4. Debt Management Policies*

Unofficial estimates put Taiwan's outstanding long and short-term external debt at \$22 billion as of early, 1999, equivalent to seven percent of GDP. Official figures show Taiwan's long term outstanding external public debt totaled \$33 billion as of June 1999, compared to gold and foreign exchange reserves of about \$110 billion. Taiwan's debt service payments in 1998 totaled \$2.1 billion, only 1.5 percent of exports of goods and services.

Foreign loans committed by Taiwan authorities exceed \$3.6 billion. Taiwan offered low-interest loans to the Philippines, Eastern Europe, Vietnam, South Africa, and Latin America, mostly to build industrial zones and to foster development of small and medium enterprises. Some of the loans were provided to several Southeast Asian nations to address financial crises. Taiwan also contributes to the Asian Development Bank (ADB), one of the two multilateral development banks in which it has membership. Taiwan is also a member of the Central American Bank for Economic Integration (CABEI). The ADB, CABEI, the European Bank for Reconstruction and Development (EBRD) and a number of other international organizations have all floated bonds in Taiwan.

#### *5. Significant Barriers to U.S. Exports*

Accession to the WTO by Taiwan will open markets for many U.S. goods and services. Of some 10,200 official import product categories, nearly 86 percent are completely exempt from any controls. 991 categories are still “regulated” and require approval from relevant authorities based on the qualifications of the importer, the origin of the good, or other factors. Another 279 require import permits from the Board of Foreign Trade or pro forma notarization by banks. Imports of 270 categories are “restricted,” including ammunition and some agricultural products. These items can only be imported under special circumstances, and are thus effectively banned.

Financial: Taiwan continues to steadily liberalize its financial sector. Taiwan enacted a Futures Exchange Law in March 1997; a futures market was established in July 1998. The Securities and Exchange Law was amended in May 1997 to remove restrictions on employment of foreigners by securities firms, effective upon Taiwan's accession to the WTO. In early 1999, the limit on foreign ownership in listed companies was raised from 30 percent to 50 percent. For qualified foreign institutional investors, restrictions on capital flows have been removed, although they are still subject to limits on portfolio investment. Foreign individual investors are subject to some limits on their portfolio investment and restrictions on their capital flows.

Banking: In June 1997, the annual limit on a company's non-trade outward (or inward) remittances was raised from \$20 million to \$50 million. Inward/outward remittances unrelated to trade by individuals are subject to an annual limit of \$5 million. There are no limits on trade-related remittances. NTD-related derivative contracts may not exceed one-third of a bank's foreign exchange position. To stabilize the foreign exchange market in the wake of regional financial turmoil, the CBC closed the non-deliverable forward (NDF) market to domestic corporations in May 1998; the NDF market remains open to foreign companies.

**Legal:** Foreign lawyers may not operate legal practices in Taiwan but may set up consulting firms or work with local law firms. Qualified foreign attorneys may, as consultants to Taiwan law firms, provide legal advice to their employers only. Legislation was passed in May 1998 to permit the eventual establishment of foreign legal partnerships. However, last minute changes to the law failed to achieve this purpose. However, Taiwan authorities subsequently agreed to delay implementation of the law and to make other commitments which will permit foreign attorneys to establish partnerships either upon accession to the WTO, or upon implementation of the new law, whichever comes first.

**Insurance:** In May 1997, the financial authorities announced that, in principle, insurance companies would be allowed to set some premium rates and policy clauses without prior approval from regulators. Insurance companies are still required to report such rates and clauses. In July 1995, Taiwan removed a prohibition against mutual insurance companies. As of late 1999, however, authorities had not issued implementing regulations.

**Transportation:** The United States and Taiwan have had an Open Skies Agreement in effect since February of 1997. An amendment to the Highway Law allowing branches of U.S. ocean and air freight carriers to truck containers and cargo in Taiwan went into effect on November 1, 1997.

**Telecommunications:** Taiwan will open its fixed line market to competition in early 2000, when it is expected to issue 2-4 new fixed line licenses to private consortia. However, the published criteria for the license tender -- including \$1.2 billion in up-front paid-in capital, a minimum one million line final build-out, and a 150,000 line build-out prior to service roll-out -- are considered onerous entry barriers by some foreign companies. Under the bilateral WTO agreement signed in February 1998 Chunghwa Telecom, a state-owned corporation, began to lower excessively high interconnection fees previously imposed on private mobile service providers. This phased process is ongoing, but Chunghwa continues to engage in pricing practices which appear designed to unfairly subsidize its mobile operations with its fixed line services, in which it continues to enjoy monopoly status. Taiwan regulators have only recently begun to address such unfair trading practices. In October, Taiwan's legislature passed a revised Telecom Law. It will raise the current 20 percent limit on foreign ownership of a telecom firm to 60 percent through a combination of direct and indirect ownership. The timing of the law's implementation, however, remains uncertain.

**Pharmaceuticals and Medical Devices:** Taiwan's single payer socialized health care system discriminates against imported drugs by setting prices for leading brand-name products at artificially low levels, while providing artificially high reimbursement prices for locally-made generics. The process by which Taiwan registers and prices new drugs is also time-consuming and cumbersome. Taiwan authorities are gradually phasing out a burdensome requirement for clinical trials as part of the registration process for new drugs. High value-added imported medical devices are likewise put at a competitive disadvantage by Taiwan's reimbursement

system, which fails to account for significant quality differences between different brands of medical devices.

**Movies and Cable TV:** Taiwan eased import restrictions on foreign film prints from 38 to 58 per title in late 1997. The number of theaters in any municipality allowed to show the same foreign film simultaneously also increased from 11 to 18. Effective August 1997, multi-screen theaters are allowed to show a film on up to three screens simultaneously, up from the previous limit of one. Taiwan has pledged to abolish these restrictions upon accession to the WTO. In the cable TV market, concerns remain that the island's two dominant Multi-System Operators (MSOs) occasionally collude to inhibit fair competition. Control by the two MSOs of upstream program distribution, for example, has made it difficult for U.S. providers of popular channels to negotiate reasonable fees for their programs.

**Standards, Testing, Labeling, and Certification:** Taiwan has agreed to bring its laws and practices into conformity with the WTO Agreement on Technical Barriers to Trade as part of its WTO accession. However, Taiwan is not yet in conformity with WTO norms. U.S. agricultural exports are often negatively affected because prior notification of changes to standards, labeling requirements, etc, are not provided with adequate lead-time, or because changes to standards and other import requirements are not provided in a WTO language. In addition, concerns exist that U.S. fresh produce and meat imports do not, in all cases, receive national treatment. Industrial products such as air conditioning and refrigeration equipment, electric hand tools, and synthetic rubber gloves must undergo redundant and unnecessary testing requirements, which include destructive testing of samples. Imported autos face stringent noise emissions and fuel efficiency testing requirements. In March 1999 the U.S. and Taiwan signed a mutual recognition agreement (MRA) designed to eliminate duplicate testing of information technology equipment. According to the terms of the MRA, certain Taiwan exports to the U.S. previously tested for electromagnetic conformity in labs recognized by Taiwan authorities will no longer require duplicate inspections in an U.S. lab. Reciprocal treatment will likewise be accorded similar U.S. products imported into Taiwan. Relevant U.S. agencies and their Taiwan counterparts are jointly implementing operating procedures according to the principles of the MRA, including nominating certified labs for mutual accreditation.

**Investment Barriers:** Taiwan continues to relax investment restrictions in a host of areas, but foreign investment remains prohibited in key industries such as agriculture, basic wire line telecommunications, broadcasting, and liquor and cigarette production. Wire line telecommunications will be gradually liberalized beginning in 1999, and will be completely liberalized by July 2001 under Taiwan's WTO commitments. Liquor and cigarette production will be fully liberalized by 2004.

Limits on foreign equity participation in a number of industries have been progressively relaxed in recent years. For example, permissible participation in shipping companies was raised from 50 to 100 percent. A 33 percent limit on holdings in air cargo forwarders and air cargo ground handling was raised to 50 percent in 1998, but remains unchanged for airlines. However,

an amendment to the Civil Aviation Law that would raise the holding limit to 50 percent is now pending legislative approval. In August 1997, Taiwan raised the cap on foreign investment in independent power projects from 30 percent to 49 percent. Local content requirements in the automobile and motorcycle industries will be lifted as part of Taiwan's WTO accession.

**Procurement Practices:** Taiwan has committed to adhere to the WTO Agreement on Government Procurement as part of its WTO accession. To prepare for this commitment, a new Government Procurement Law (GPL) became effective in mid-1999, marking an important first step towards open, fair competition in Taiwan's multi-billion dollar market for public procurement projects. However, some initial procurements after the implementation of the GPL still have one-sided terms and conditions which may strongly discourage foreign bidders, including inefficient allocations of risks to the supplier.

#### *6. Export Subsidies Policies*

Taiwan provides an array of direct and indirect subsidy programs to farmers, ranging from financial assistance to guaranteed purchase prices higher than world prices. It also provides incentives to industrial firms in export processing zones and to firms in designated "emerging industries." Some of these programs may have the effect of subsidizing exports. Taiwan is currently in the process of notifying the WTO of these programs, and as part of its WTO accession, it may be required to amend or abolish any subsidy programs deemed inconsistent with WTO principles.

#### *7. Protection of U.S. Intellectual Property*

Taiwan is not a party to any major multilateral IPR conventions. In line with WTO accession efforts, Taiwan has passed laws to protect integrated circuit layouts, personal data, and trade secrets. Taiwan currently protects copyrights dating from 1965. Revised Copyright, Patent, and Trademark Laws were passed in 1997. However, only the Trademark Law and certain provisions of the Copyright Law have been implemented. The new Copyright Law, which will be fully implemented only upon WTO accession, will extend retroactive copyright protection to 50 years. Taiwan implemented these changes to bring its IPR legal structure into conformity with the WTO TRIPs agreement.

In its April 1999 decision to keep Taiwan on the Special 301 Watch List, the United States cited continuing concerns about Taiwan's IPR enforcement generally, and specifically urged Taiwan authorities to tighten controls on optical media production. In 1998, U.S. Customs seized \$8.6 million of counterfeit goods from Taiwan, making Taiwan the second largest source of counterfeit goods (after the PRC). Taiwan has taken steps to address these concerns. In January of 1999, Taiwan established an Intellectual Property Office to improve coordination of IPR protection efforts. In February, Taiwan's Executive Yuan issued a new directive requiring only the use of legal software by Taiwan authorities. Beginning on July 1, 1999, all optical media products produced in Taiwan, including CD's, VCD's, CD-ROM's and DVD's, were required to



bear source identification (SID) codes. At the same time, Bureau of Standards, Metrology and Inspection inspectors were authorized to perform random factory visits to ensure compliance. Also on July 1, the Taiwan Semiconductor Industry Association began implementation of a voluntary computer chip-marking program.

## 8. *Worker Rights*

*a. The Right of Association:* Although the right to organize was reaffirmed by Taiwan's Judicial Yuan in 1995 as a constitutional right, the Labor Union Law (LUL) forbids civil servants, teachers, and defense industry workers from organizing trade unions and forbids workers from forming competing trade unions and confederations. However, as democratization has continued, workers have established independent labor unions, either legally or illegally. These independent unions increasingly are challenging the leadership of the Chinese Federation of Labor, which is closely tied to the ruling Kuomintang party, and is the only island-wide labor union permitted. In February of 1999, a national teacher's association was established. In July, workers unions of 18 state-owned enterprises formed an alliance to protect their rights during privatization. As of June of 1999, 2.9 million workers, or 30.5 percent of Taiwan's labor force, belonged to 3,766 labor unions.

*b. The Right to Organize and Bargain Collectively:* Except for civil servants, teachers, and defense industry workers, the LUL, the Law Governing the Handling of Labor Disputes, and the Collective Agreement Law offer workers the right to organize and bargain collectively. However, the law contains restrictions to curb workers' exercise of these rights. The LUL, for example, stipulates that workers shall not strike to demand an increase in wages exceeding standard wages. Collective bargaining agreements exist only in large-scale enterprises. As of June 1999, there were 298 such collective agreements.

*c. Prohibition of Forced or Compulsory Labor:* The Labor Standards Law prohibits forced or compulsory labor. The maximum jail sentence for violation of the law is five years. Except for cases involving prostitution, there have only been allegations of possible forced or compulsory labor relating to PRC crewmembers on Taiwan fishing boats.

*d. Minimum Age for Employment of Children:* The Labor Standards Law stipulates age 15, after completion of the 9-year compulsory education required by law, as the minimum age for employment. County and city labor bureaus enforce minimum age laws. Child labor is rare in Taiwan.

*e. Acceptable Conditions of Work:* The Labor Standards Law (LSL) mandates basic labor standards. Pursuant to a 1996 amendment, the LSL was extended to cover all salaried employees (except teachers, civil servants, doctors, lawyers and some other specialized professions) as of the end of 1998. The law now covers over 5.5 million of Taiwan's 6.7 million salaried workers. The Council of Labor Affairs (CLA) has kept the basic wage at the same level (NT\$15,840 per month or about \$500) since 1997. However, the average monthly wage in Taiwan's

manufacturing sector was NT\$40,130 (or about \$1,300) during the first six months of 1999. The LSL limits the workweek to 48 hours (8 hours per day, 6 days per week) and requires 1 day off every 7 days. In December of 1996, the LSL was amended to allow employers to adjust working hours, with approval by workers. The amendment allows private firms to have five-day workweeks twice every month, similar to the system implemented for civil servants in early 1998. Currently, about one third of private enterprises have adopted an alternating 5-day workweek system. In addition to wages, employers typically provide workers with additional payments and benefits, including a portion of national health insurance and labor insurance premiums, the distribution of labor welfare funds, meals, and transportation allowances.

*f. Rights in Sectors with U.S. Investments:* U.S. firms and joint ventures generally abide by Taiwan's labor law regulations. In terms of wages and other benefits, worker rights do not vary significantly by industrial sector.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad  
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	49
Total Manufacturing	3,258
Food & Kindred Products	99
Chemicals & Allied Products	1,372
Primary & Fabricated Metals	45
Industrial Machinery and Equipment	280
Electric & Electronic Equipment	1,191
Transportation Equipment	(1)
Other Manufacturing	(1)
Wholesale Trade	368
Banking	614
Finance/Insurance/Real Estate	337
Services	163
Other Industries	148
<b>TOTAL ALL INDUSTRIES</b>	<b>4,937</b>

(1) Data suppressed to avoid disclosure of individual company data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.